

Member Update

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TOPIC: Consequences of the Conflict in Ukraine on the Australian Grain Trade

DISTRIBUTION: GTA Members – primary contact list. Please circulate to all appropriate internal parties.

1. Background

- As the conflict in Ukraine continues, there is a significant and growing impact on global grain markets.
- As one of the key industry bodies within the Australian agricultural industry, GTA places a **high priority on food security and ensuring the open and reliable movement of food ingredients** to all areas of need, both domestically and internationally. Together with our affiliations with similar global bodies such as International Grain Trade Coalition (IGTC) and its member organisations, GTA will continue to promote and foster an efficient and stable grain trade environment, which is critically important at this time.
- The disruption to food supply chains is already evident, and this can have a significant impact on all nations, and notably many lower income nations of the world.
- Russia and Ukraine are two of the world's largest exporters of wheat, barley, corn, sunflower seed and other products.
 - Ukraine is the fifth largest wheat exporter, accounting for about 10% of the global market, according to the Food and Agriculture Organisation (FAO). It is also one of the biggest exporters of maize, accounting for about 15% of global exports, and around 50% of global sunflower seed exports
 - Russia is the world's largest wheat exporter, with about 17% share of the global export market, and is the second biggest supplier of sunflower seed exports with 28% of global exports.
 - The Black Sea region exports at least 12% of global food calories, including sunflower oil, maize and other crops along with wheat. A large proportion of these exports – about 40% in the case of wheat – go to the Middle East and Africa, where food price inflation is already notable.
- While Australia, along with other grain exporting countries, may play a role as an alternative supply source, it can only do so within the constraints of its production and supply chain capacity.
- The consequences of the Russian invasion of Ukraine is having an impact on grain and oilseed values with price volatility of these commodities exceeding the 2007/2008 season, which saw significant food price inflation driven by droughts and the GFC.
- With uncertainty around upcoming production seasons in Ukraine and Russia, the potential for significant supply and demand imbalances exist, coming with it the possibility for global food security issues, that could potentially have far-reaching human and political consequences, in addition to the tragic circumstances in Ukraine.
- The FAO, has said Ukrainian farmers could miss the crucial May planting season for their crops. Supplies from Russia could also become uncertain given the escalating political situation.

2. Sanctions on Trade

- Governments and international companies including **shipping companies are placing sanctions** on Russia. These may have a flow on impact on Australia's grain supply chain.

- DFAT has information on its website ([Link: here](#)) that relates to autonomous sanctions in relation to Russia in response to the invasion of Ukraine. The DFAT advice notes these Australian sanctions include:
 1. Restrictions on certain commercial activities.
 - It is prohibited to deal with financial instruments issued by, or providing loans or credit to:
 - specified publicly-owned or controlled Russian banks
 - specified Russian companies predominantly engaged in activities relating to military equipment or services
 - specified publicly-owned or controlled Russian companies involved in the sale or transport of crude oil or petroleum products
 - majority owned subsidiaries or entities acting as agents for any of the above.
 2. Restrictions on providing assets or dealing with the assets of designated persons or entities.
 - It is prohibited to directly or indirectly make an asset available to (or for the benefit of) a designated person or entity.
 - It is also prohibited to use or deal with an asset or allow or facilitate another person to use or deal with an asset, owned or controlled by a designated person or entity (the assets are 'frozen' and cannot be used or dealt with). The prohibition on 'dealing' with assets includes using, selling or moving assets.
 - 'An 'asset' includes an asset or property of any kind, whether tangible or intangible, movable or immovable.
- US and other Foreign Sanctions Laws also need to be considered in the wider legal and commercial context of grain trade and investments. DFAT recommends parties **seek their own** legal advice on the sanction's laws of other countries, including the US.
- Australian businesses engaging with Russian entities should **monitor US sanctions and seek legal advice** on whether your operations are affected. You may also wish to consult with your financial institution to ensure that any payments from Russia can be accepted, as some banks have restricted dealing with Russia due to US sanctions law.

3. Impact on Shipping & Trade

- The sanctions are anticipated to impact shipping and reportable Russian-related sanctions are already beginning to impact most shipping segments, including commodity traders, tankers, **containers, dry bulk** and gas.
- The market consequences may continue to exacerbate supply chain congestion as vessels are diverted or delayed. The shipping sector is already seeing companies divest themselves of connections with Russia, and some countries are developing restrictions on port access by Russian-owned vessels.
- Many large shipping container lines have stopped service to Russia. Some banks have reportedly paused their Russian activities and may refuse to issue, confirm or advise letters of credit directly or indirectly connected with Russian parties and Russia-related transactions as they assess the sanctions and attendant regulatory requirements.
- Issues that have been reported that may arise include:
 - shipping companies could run afoul of sanctions if they pay a Russian crewmember through a sanctioned bank,
 - making payments for services or supplies rendered at a port or marina to a Russian-controlled vessel or yacht, such as bunkers provided to vessels owned by Russian oligarchs.
 - The ever-present risk to a shipowner and operator if a P&I Club cancels or suspends insurance cover (a ship's so-called "ticket to trade") due to transactions that present an unacceptable sanctions risk or violate respective Club rules.
- Entities that may have entered, or are contemplating entering into, charterparties or other shipping or sales contracts that may be affected by the wide-ranging Russian sanctions should carefully consider existing or future contractual relationships. Respective charterparties may include bespoke clauses dealing

with the key considerations, and thus must be carefully scrutinized to assess rights, obligations and defence.

- Stakeholders should also evaluate charterparties to confirm if they have included comprehensive sanctions clauses.

4. External Communication by GTA Members

- GTA members are reminded the consequences and the impact on the market are far reaching with tragic circumstances for Ukraine and anticipated impacts for global food supply. Please be conscious of these circumstances if making any public comments especially relating to market conditions.
- Members may wish to direct media enquiries to GTA
- For further information or queries contact GTA via admin@graintrade.org.au

Ends: